

Viola Home Telephone Company
Exhibit 2 on rehearing

STATE OF ILLINOIS

ILLINOIS COMMERCE COMMISSION

ILLINOIS INDEPENDENT TELEPHONE
ASSOCIATION)

Petition for initiation of an investigation of
the necessity of and the establishment of a
Universal Service Support Fund in accordance
with §13-301(d) of the Public Utilities Act)

Illinois Commerce Commission On Its Own)

Investigation into the necessity of and, if
appropriate, the establishment of a Universal
Support Fund pursuant to Section 13-301(d)
of the Public Utilities Act.)

Docket No. 00-0233

Docket No. 00-0335

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COMMERCE COMMISSION

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REBUTTAL TESTIMONY

OF

CAROL PETERSON

ON BEHALF OF

VIOLA HOME TELEPHONE COMPANY

December 14, 2001

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1 **Q. Please state your name.**

2 A. My name is Carol Peterson

3 **Q. What is the purpose of your rebuttal testimony on rehearing?**

4 A. I will respond to the direct testimony on rehearing filed by various parties in this
5 proceeding.

6 **Q. Dr. Staranczyk of the Commission Staff and Mr. O'Brien of Ameritech suggest**
7 **an affordable rate of \$24 residence and \$27 business, or an affordable rate of no**
8 **less than \$22.23. What is your response?**

9 A. Both the Staff and Verizon take the position that the affordable rate should be \$24
10 residence and \$27 business, a position that the Commission already rejected. The
11 Staff presents no evidence about Verizon's rates because Verizon hasn't presented
12 any evidence on its \$22.23 figure on rehearing. Ameritech testified that prior to its
13 flat rate optional package the average number of calls per month in Illinois was a
14 specific number. However, Ameritech did not present any evidence or any study for
15 rural users. Small company users with 600 to 1,000 access lines in an exchange have
16 fewer other access lines to call without incurring a toll charge.

17 As pointed out by Mr. O'Brien, Verizon's estimate of 100 calls per month appears to
18 be an arbitrary figure. Verizon did not present any study or evidence to show 100
19 calls per month, but several of the small companies have produced studies to show
20 that in the rural exchanges customers use their telephones to make less than 100 calls
21 per month on average. Contrary to Mr. O'Brien's "assumption," it is not reasonable
22 to surmise that callers in flat rate small company exchanges would have a greater

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1 number of local calls than customers in Verizon's measured rate exchanges because
2 Verizon didn't present any studies about the number of local calls within its rural
3 exchanges. Viola and other small companies have demonstrated that 100 calls per
4 month is an inflated figure for rural companies. There are simply not as many people
5 to call in the rural exchanges and it is a long distance charge to larger population
6 centers for retail health care and other common residential and business purposes.
7 Therefore the \$20.39 figure is more realistic than \$22.23.

8 **Q. Verizon's witness, Dennis B. Trimble, on page 5 of his testimony expressed the**
9 **opinion that non-support of secondary lines could be made up by other pricing**
10 **changes to other services such as vertical services. Ameritech also suggested that**
11 **if secondary lines do not get universal service support, lost revenue could be**
12 **made up elsewhere. Are those suggestions feasible?**

13 A. No, our company, like other independent telephone companies, has very limited
14 growth capacity. Contrary to Mr. Trimble's assumption, we can't just go out and hunt
15 up new business. At the present time we have 854 access lines, and in 1990, we had
16 699 access lines, an increase of 155 access lines. The population of the Village of
17 Viola has decreased by 8 people over the last 10 years from 964 in 1990 to 956 in
18 2000. Therefore we have less people and the increase in access lines is due to rise in
19 secondary lines stimulated by the internet and fax machines. We have 199 customers
20 using call waiting; 34 customers using call forwarding; and 6 with 3-way calling. Our
21 rate for each of those 3 services is \$1.25 for residence and \$2.00 for business. These
22 rates are similar to Verizon's charges for the same services. We do not have real

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1 alternative revenue possibilities with vertical services and with a small population,
2 our future growth, if anything will be with requests for more secondary lines.

3 **Q. Have you made vertical services known to your customers?**

4 A. Yes, we have advertised these services in the past and encouraged their use, but I do
5 not see any future growth for these services. Any significant price increases in these
6 services will more than likely reduce their demand.

7 **Q. Mr. O'Brien, on behalf of Ameritech, testified that secondary lines are less costly**
8 **to "provision" than primary lines (pg. 8 of his testimony). He then concluded**
9 **that providing support to secondary lines would be in direct conflict with the**
10 **purpose of the fund, that is, to provide support to small companies based on**
11 **higher costs of the company receiving funding. Do you agree?**

12 A. I agree with the answer to this question given by Katherine Barney of Leaf River.

13 **Q. Mr. O'Brien also stated that it is inappropriate that customers in non high-cost**
14 **exchanges be required to subsidize "discretionary" second or third residence**
15 **lines where costs might be higher. How do you respond?**

16 A. I agree with the answer to this given by Katherine Barney of Leaf River.

17 **Q. Various parties make different suggestions for a phase-in period to the**
18 **affordable rate. Do you have any suggestions on this issue?**

19 A. Yes. Putting aside the rates of cooperatives, Viola has the lowest local rate in the
20 state. Our present local rate of \$12.25 is \$8.14 below the rate of \$20.39 and this issue
21 is of critical concern to us. Verizon proposes a two to three-year period but suggests
22 that all companies have fixed 6-month rate increases at the largest amount. Using

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1 Glasford Telephone Company, a company that does not qualify for universal service
2 support money even with an affordable rate of \$20.39 and therefore a company that
3 will not increase its rates at all, Mr. Trimble calculates that the phase in amount for all
4 companies should be \$2.74 every 6 months over 3 years. Verizon concludes that this
5 is reasonable and rational, even though Glasford does not qualify to receive funds
6 unless the current rate is the affordable rate. We disagree with Verizon's proposal..

7 Ameritech agrees with the IITA's 3 year proposal with two modifications. Ameritech
8 suggests a three-year phase-in to the \$22.23 level by raising rates a minimum of \$1.00
9 every six months, or one-sixth the difference, whichever is greater. If the affordable
10 rate is set at \$20.39, Ameritech suggests a two-year phase-in with increases of one-
11 fourth the difference between existing rates and the affordable rate every six months.

12 As noted by Ameritech, a phase-in should be designed to avoid rate shock. Under the
13 MAG plan, small company rate payers will be paying an increase in their subscriber
14 line charge on January 1, 2002, and subsequent increases could be experienced six
15 months later. Accelerating price increases at the \$2.74 rate proposed by Verizon
16 won't avoid rate shock under these circumstances. We recommend that the
17 Commission adopt a hybrid of our original proposal and the proposal of the IITA.

18 Assuming that the affordable rate is set at \$20.39, we propose that any company that
19 is within \$3.00 of that rate or \$17.39 or greater, should reach the affordable rate by
20 increases of \$1.00 per year over the next three years. Any company whose current
21 rates exceed the affordable rate by \$3.00 should phase in their rate increases by one-

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1 fifth, or 20% of the difference over a five-year period. Many of our customers are
2 elderly and on fixed incomes. We also recommend that the rate increases occur every
3 six months beginning on January 1 and July 1 to coincide with the increases in the
4 MAG plan. Otherwise, the subscriber will be getting a rate increase in his bill every
5 two to four months or 4 times per year for a lengthy period of time and cause
6 customer confusion. This proposal meets the goal of avoiding rate shock and
7 transitioning in the affordable rate in a fair and equitable manner.

8 **Q. Does that conclude your testimony?**

9 **A. Yes.**